

**CITY OF FRESNO**  
**NEIGHBORHOOD STABILIZATION PROGRAM (NSP)**  
**LENDER FACT SHEET 2010**

**Description of the Neighborhood Stabilization Program:** The U.S. Department of Housing and Urban Development's (HUD) Neighborhood Stabilization Program (NSP) is providing assistance to the City of Fresno to acquire and redevelop abandoned or foreclosed properties that might otherwise become sources of blight. Through this Program, the City proposes to stabilize neighborhoods, affected by the high incidence of abandoned and foreclosed homes, by facilitating the resale of these rehabilitated homes to eligible, owner-occupied, low, moderate and middle income families.

The City is working through four local agencies/companies to utilize the NSP funds to purchase abandoned or foreclosed homes, provide needed improvements, and resell the homes to eligible homebuyers. The four agencies are: the Fresno Housing Authority, the Fresno Redevelopment Agency, Coalition for Urban Renewal Excellence and 2M Development Corporation.

Eligible homebuyers will receive NSP funding in the form of a deferred second loan to assist with the purchase of the NSP home.

**Pricing of Rehabilitated NSP Properties:** Under City NSP guidelines, a rehabilitated NSP home must be both listed for sale and sold at a price equal to the lesser of cost (without profit) or fair market value (i.e. the selling price cannot be more than or less than the posted listing price). These guidelines were specifically designed to discourage low ball offers (the property will already be priced attractively) and above market offers (prices escalated by competitive bidding wars). If multiple offers are received, the offer which will be accepted is the first one received from an eligible homebuyer at the posted listing price. **All listing agents will be required to disclose this information in the agent remarks posted on the Multiple Listing Service.**

Additionally, the maximum sales price and/or value cannot exceed the pre-Economic Stimulus Act Single Family Mortgage Limits under Section 203(b) as published by the U.S. Department of Housing and Urban Development (HUD).

**Homebuyer Approval**

Upon receipt of a homebuyer loan packet, the City will analyze each application for eligibility based on income, underwriting criteria/credit worthiness and other requirements per the guidelines established below.

**1. INCOME**

- A. Income eligibility is based on gross anticipated income and may not exceed 120% of the area median income adjusted for family size as shown in the table below. Income from all sources must be used and cannot exclude compensating factors such as child support or income from a second or temporary job. When collecting income verification documentation, any likely changes in income must also be considered. Prior year's tax return does not establish anticipated income; current pay stubs should be used. Income includes:
  - i. Overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services (before any payroll deductions).

- ii. If an upcoming raise is shown on the Verification of Employment, it must be calculated as current income.
  - iii. Wages from a second job, even if the borrower has not been on the job long enough for the FHA underwriter to use those wages.
  - iv. The regular amount of periodic payments received from Social Security, Supplemental Security Income (SSI), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. These amounts should not be grossed up.
  - v. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay.
  - vi. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling.
  - vii. Interest, dividends, and other net income of any kind from personal property. Where the net assets are in excess of \$5,000, income includes the greater of the actual income derived from all the assets or a percentage of the value of all such assets based on the current passbook savings rate, as determined by HUD's guidelines.
- B. Income qualification for self-employed persons can be based on prior year income tax returns. Net income plus depreciation from the operation of a business or profession will be used.
- C. Income averaging is allowed **only** when the borrowers are seasonal employees with fluctuating incomes.
- D. The following income eligibility table will be used starting June, 2010 and will be updated yearly to reflect federal and state requirements.

INCOME ELIGIBILITY (120% of Area Median Income)								
Household Size	1	2	3	4	5	6	7	8 +
Maximum Allowable Gross Yearly Income	\$47,300	\$54,050	\$60,800	\$67,550	\$72,950	\$78,350	\$83,750	\$89,200

Date of Last Revision: June 1, 2010

## 2. UNDERWRITING GUIDELINES / CREDIT WORTHINESS

- A. Debt-to-income ratios cannot exceed 35/43, except as noted below. The top or front-end ratio is the ratio between monthly household income and monthly

housing cost, including the first mortgage principal, interest, taxes, and insurance. The bottom or back-end ratio is the ratio between monthly household income and monthly housing costs plus all payments on long-term installment debt. There are two exceptions when the monthly housing cost (top ratio) can exceed 35%, but not be more than 38%.

- i. The borrower has demonstrated over a minimum 12 month period the ability to pay housing costs that are equal to or greater than the housing costs for the property to be purchased.
- ii. The borrower's monthly housing costs will not increase more than five percent.

B. The primary loan must be for the maximum amount that the buyer qualifies for and includes the following:

- i. The monthly housing cost (top ratio) must be at least 30% of the borrower's monthly household income however, it cannot exceed 35% unless one of the above exceptions applies, and the total debt ratio cannot exceed 43%. The City, at its discretion, may allow borrower(s) who will be assisted with a Neighborhood Stabilization Program loan of \$10,000 or less, to have a monthly housing cost (top ratio) that is less than 30%.
- ii. The amount of the City's assistance cannot exceed the primary loan.

C. Credit worthiness of the borrower(s) shall indicate the ability to repay all debts and include:

- i. No past due/collection accounts at the time the Program loan is recorded.
- ii. No unpaid liens or judgments at the time the Program loan is recorded.
- iii. No bankruptcies that have not been discharged at least three years prior to the application for financing under the Program.

D. Only fixed rate mortgages with the same monthly payment amount for the full term of the loan are allowed; adjustable rate mortgages (ARM's) and/or graduated payment loans (GPM's) are NOT allowed.

E. Full documentation loans only - either FHA or Fannie Mae. No interest only loans, no temporary buydowns, negative amortization, principal increases, balloon payments or deferred interest loan provisions.

### 3. OTHER

A. Household Size - For qualification purposes, "household size" shall be determined in the following manner:

1. Immediate household members and dependents shall be verified from the prior year Federal Income Tax Return. The only documentation that can change the number of household members shown on the tax return is the birth of a child in the current year or official documentation from a court that shows guardianship of a child was obtained in the current year. However, if a dependent that is listed on the most recent tax return is 18 years of age or older, they must be currently enrolled in a trade school, community college or college full time to be counted as a dependent. A class schedule must be provided as documentation for enrollment in school.
2. When the borrower's spouse is not shown on the tax return (i.e., borrower filed head of household), the spouse's tax return or affidavit must be included even if the borrower is taking title as a sole and separate borrower. The income, if any, must be included and the spouse will be included as part of the household.
3. Families who do not file Federal Income Tax Returns must verify dependent support through child support documents, Temporary Aid for Needy Families (TANF) eligibility documents, Social Security eligibility letters, birth certificates, or other verifiable documentation.
4. Immediate household members or other persons, who cannot provide proof of support, shall not be included in the family size for qualifying purposes.
5. In cases where there are multiple family members on title, income from all sources must be verified for each family member.

B. Home Buyer

The borrower can be any homebuyer who will be required to live in the purchased home as an owner occupant. However, if the borrower has had any previous type of home buyer assistance from the City of Fresno, the borrower is not eligible for this program even if they have signed off their interest in the property. For example, if the borrower was a co-borrower for someone else, and during that process obtained a Downpayment Assistance Program (DAP) loan or a Lower Income Home buyer Program (LIHP) loan in their name, they would not be eligible for this program. Home buying programs through the City of Fresno are a one-time opportunity whether as a borrower or a co-borrower. If the borrower recently lost a home due to foreclosure, they may still be eligible if they meet all other program requirements.

C. Co-borrowers

Non-occupying co-borrowers will not be allowed for the Program.

D. Residency in the County of Fresno

The borrower must have lived or worked in the County of Fresno for the past six months.

E. Home Purchase Loan

The borrower must be prequalified for a home purchase mortgage loan from a participating lender approved by the developer. The amount of the base loan shall be the maximum loan amount for which the buyer qualifies.

F. Three Percent Contribution

The City requires that the borrower provide a three percent (3%) cash contribution toward the purchase of the home. The three percent contribution can be a gift if the donor is a relative of the borrower. A signed gift letter must be included before submission of the package.

G. Home Buyer's Counseling Class

The borrower(s) must attend a home buyer's counseling class from a HUD-certified homebuyer counseling agency, and provide certification of attendance before the submission of the package. A minimum of sixteen hours must be completed. The Housing Authority of the City of Fresno is the city approved homebuyer counseling agency.

**Terms of the Deferred Loan**

1. Loan amount will be determined by the City of Fresno. Said amount shall not be less than \$5,000, nor shall it exceed the lesser of \$30,000 or 49% of the gross purchase price, but in no circumstance shall it exceed the actual amount needed to make the home affordable for the homebuyer.
2. The amount of the assistance for closing costs cannot exceed \$6,000.
3. Zero percent (0%) interest.
4. No monthly payments.
5. No loan fees.
6. No prepayment penalties.

7. Loans are not assumable.
8. The loan will be due the earliest of: 30 years, upon sale, transfer of the property or when the home is no longer the buyer's principal residence. However, if the primary loan is refinanced and the costs of that transaction or "cash out" are included in the new loan, the City's loan must be paid off.
9. Loan will be secured with a Deed of Trust and be subordinate to the primary mortgage loan.
10. A deed restriction will be recorded with the Deed of Trust. It will discuss the terms of the affordability period, which is thirty years (30 years) for the amount of funds provided. For purposes of this deed restriction, year one shall be the 12-month period following execution of the Deed of Trust, with each succeeding year beginning on the anniversary of the document execution and ending 12 months later. There will be no partial years.
11. Refinance/subordinations of the first lien mortgage will be allowed for the current principal balance of the primary loan at the time of the requested subordination. The new loan shall not contain any balloon payments or call dates. It must be a fully amortized loan. No "cash out" (this includes paying off installment or credit accounts) or costs of the refinance transaction will be allowed in the new loan.
12. In the event of a catastrophic occurrence that results in the property having to be sold, the portion of this existing second mortgage lien that results in the combined loan-to-value ratio being more than 100% of the value of the property will be released with no forgiveness of that portion of the debt, and the contemporaneous execution of an unsecured promissory note equal to the amount released from the second mortgage, and a modification agreement that reduces the secured debt of the existing second mortgage by the amount of the new unsecured promissory note.

#### **Lender Participation and Loan Processing Guidelines**

Each developer will select which lender(s) they will work with. The City encourages developers to select lenders that have prior experience in working with City of Fresno funded downpayment and mortgage assistance programs.

Lender is to prequalify the borrower for a mortgage loan to purchase a selected home. Lender is to determine the amount of cash required of the borrower, in addition to the lender's loan, in order to purchase the subject home. Lender is to ensure that upon close of escrow the borrower has contributed a minimum of 3 percent cash to the purchase of the home.

Lender is to complete the City-provided Program Eligibility Worksheet (attached) to determine:

- a. The borrower's income eligibility in order to receive a Program loan; and
- b. The amount of the City's loan.

Lender's authorized representative is to sign the Certification of Eligibility certifying that the borrower's eligibility has been verified.

Within 10 days prior to the planned close of escrow, lender is to submit the original signed Eligibility Worksheet, appropriate verifications, and other documents (as indicated on the Eligibility Worksheet), and provide escrow instructions identifying an escrow account number and escrow company. All documents are to be sent to:

**City of Fresno  
Planning and Development Department  
Attention: Pam Rodrigues  
2600 Fresno Street, Room 3070  
Fresno, CA 93721-3605**

The City will review all required documents for completeness and the lender's certification of borrower eligibility.

Based on the Lender's certification of eligibility, the City will prepare the necessary city loan documents including the Deed of Trust, Note and Truth in Lending Disclosure Statement, Request for Notice, and process a check in the amount approved by the City.

The City's check will be transmitted to the title company along with instructions for executing the City's loan documents (Note, Deed of Trust, Truth-in-Lending Disclosure Statement, and Request for Notice), recordation of same (as appropriate), and disbursement of City funds.

Upon close of escrow, all original City loan documents, evidence of insurance documentation and the final settlement statement are to be transmitted directly to the City for retention. A review of the final settlement statement will be performed to ensure that the borrower has contributed a minimum 3% of the sales price and that the contribution has remained in the transaction and has not been returned to the borrower. If not in compliance, a request for the funds will be issued to the title company with a copy to the borrower. When the funds are returned to the City, the borrower's loan amount will be reduced.

Monitoring and accounting of the Program loan and requisites will be the responsibility of the City.

**Acceptable Seller Paid Closing Costs:** Acceptable costs related to the sale of an NSP property which may be paid by the Seller are as described below:

- Pro-ration of Property Taxes and any Special Assessments
- One-half of Settlement or Closing Fee
- County Tax/Stamps
- Owner's Policy of Title Insurance
- Pest Inspection
- Home Warranty
- Geological and Environmental Disclosure Report

- Broker Commission of up to 6% of the Sales Price (3% to Listing Broker and 3% to Selling Broker)

**Benefits of Purchasing an NSP Home:**

- “Move-in” ready and thoroughly inspected home
- A zero percent, 30 year, deferred payment, second trust deed loan
- Not just for first-time homebuyers
- Investor purchases are prohibited
- Purchasing from a trusted local developer/agency